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GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE STATE BUDGET
LANSING

MARY A. LANNOYE
DIRECTOR

June 30, 2006

MEMORANDUM

TO: Agency Chief Accountants

FROM: Mary G. MacDowell, Director, Financial Services Bureau,
Department of Treasury *MacDowell*

Moody Michael J. Moody, Director, Office of Financial Management,
Office of the State Budget

SUBJECT: Bypassing the State Vendor File and Treasury Offset

In limited circumstances, the Office of Financial Management (OFM) and Department of Treasury grant agency approval to bypass the State Vendor File and/or Treasury's offset processes. This memo is intended to: 1) alert you that we may be contacting you regarding previous approvals to ensure that their use is still valid and used within the restrictions previously granted, and 2) notify you that our offices will be closely monitoring usage to ensure compliance. The criteria our offices use when considering your request follows:

OFM grants approval to bypass the State Vendor File under two conditions:

1. If the payment is not 1099 reportable. In general, vendor/payee payments that qualify as interest and/or miscellaneous income and sales or exchanges of real estate are 1099 reportable, **or**
2. If the payment or combination of payments to the vendor/payee are for a 1099 reportable activity, but it is unlikely that the total will exceed \$600 during a tax year. These payments are minor and infrequent so the effort to register the vendor/payee on the State Vendor File is not warranted. Examples include State Fair prize awards and "rewards" paid to persons who return fish tags to the Department of Natural Resources.

It is the State's policy that Treasury will take all legal measures to collect delinquent taxes and State agency debts. Treasury may grant approval to bypass the offset process for the following situations:

1. A Statutory exemption applies; the agency must provide statutory citation that supports the exemption.
2. When the payment is refunding monies for overpayment of goods, services, or licensing fees.
3. For award programs when agencies pay a small stipend to a payee as an award.

In situations 2 and 3 above, approval to bypass the offset process is based on:

- The amount is \$200 or less, **and**
- The payee's tax identification number is not available, **and**
- The payment is not a 1099 reportable activity.

Bypassing the State Vendor File and Treasury offset is accomplished through assignment of user classes for R*STARS on-line payment processing and through the use of a Source Application Indicator Code for payments processed through an interface. Instructions for requesting approval to bypass the State Vendor File will be included in Part VIII of the Financial Management Guide for R*STARS on-line payments and Part III for interface payments. Guidance regarding Treasury's policy may be found on their Intranet site, <http://connect.michigan.gov/portal/site/treasury> within "Inside Treasury", then "Working WITH Treasury", then "Central Services Infocenter".

Please contact Shelley Pelfery, at (517) 241-0880 or pelferys1@michigan.gov, if you have questions regarding this memo. We look forward to working with you to ensure that the State Vendor File and offset processes are only bypassed in appropriate circumstances.

cc: Palmer Giron, Finance and Accounting Division, Treasury
Doug Ringler, Support Services Division, Office of the State Budget